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SIPDIS

MCC FOR PAPPLEGARTH, JHEWKO, SGAULL, MHARRINGTON, RHERING

STATE FOR AF/S - HTREGER, EB/IFD/ODF, AND EB/TRA

USDOC FOR AHILLIGAS

SENSITIVE

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SUBJECT: SCENE-SETTER FOR VISIT OF MCC CEO PAUL APPLEGARTH TO MOZAMBIQUE

REF: A. MAPUTO 1341

[B](#). Maputo 1001

[C](#). Maputo 1183

[1](#)1. (SBU) Introduction and Summary: Your visit to Mozambique will provide an opportunity to gain a better understanding of the Mozambican political environment, government, private sector, civil society, and MCC team and to increase Mozambican understanding of the MCC. You will be here during the campaign for December national elections. This message provides background on the elections, trade and investment, the fight against HIV/AIDS, poverty reduction, and other topics. End Introduction and Summary.

MOZAMBIQUE AND DEMOCRACY

[1](#)2. (SBU) Mozambique is rightly considered a post-conflict success story. Since the signing of the 1992 Rome Peace Accords that ended sixteen years of civil war, Mozambique has made significant progress in promoting economic reforms and advancing democracy. On December 1 and 2, Mozambique will hold its third multi-party presidential elections since independence in 1975 (Ref A). The current president, Joaquim Chissano, will step down after having served since 1986, winning elections in 1994 and 1999.

[1](#)3. (SBU) During November 2003 municipal elections, the ruling party, FRELIMO, won all but four of the country's 33 mayorships in what were considered generally free and fair elections. RENAMO's four mayoral wins and five city council wins signaled the first time that it took power on a local level. All of the RENAMO wins were in the central and northern provinces; two of them were in major port cities that have a significant impact on economic growth in Mozambique. Prior to and during these elections, the president of the major opposition party (RENAMO), Afonso Dhlakama, alleged intimidation and political harassment of voters by FRELIMO authorities - a complaint repeatedly announced by RENAMO supporters during past elections. The GRM passed a new general elections law in May of 2004 that will allow for greater transparency in the process of vote counting and dissemination of electoral results. Mozambican electoral authorities estimate just over 9 million Mozambicans are registered to vote in the December general elections. Though leading presidential candidates Armando Guebuza of FRELIMO and Afonso Dhlakama of RENAMO have called for a transparent and peaceful process, there are signs of increasing tensions. In a recent turn of events, the GRM, through the National Elections Committee (CNE), has announced that it will not allow international observers to participate in observation of the final vote counting stage (national level validation). The European Union, which helps fund the elections and sends a team of official observers, is concerned and is considering next steps. The Carter Center also plays an important role in observing elections and conducting a parallel vote tabulation (PVT) financed by the U.S. Mission.

[1](#)4. (SBU) The electoral campaign begins on October 17 and continues until three days prior to the elections. Many government officials will be out of Maputo campaigning during your visit.

A WORD ON THE PRESIDENTIAL CANDIDATES

[1](#)5. (SBU) Though Guebuza belongs to a different ideological camp within the FRELIMO party and is considered less flexible than is Chissano, he has indicated that he is likely to continue current government policies if elected. On his trip to the United States in July, when he attended the Democratic National Convention and visited you, the Global AIDS Coordinator's office (S/GAC), the Corporate Council on Africa (CCA), and the State Department, Guebuza reiterated the importance of maintaining a strong Mozambique-U.S. relationship and stressed that he would honor commitments with donor communities and international financial institutions (IFIs). A businessman himself as a result of his party and government positions, Guebuza demonstrates understanding of business and economic concerns and reaches out to the private sector community. Guebuza is known as a strong nationalist and has on occasion called for the "Mozambicanization" of businesses (Ref B). This causes some concern for foreign investors - both existing and potential.

Guebuza acknowledges the extensive US commitment to helping Mozambique overcome the challenges of poverty and HIV/AIDS. He comes across as a serious and intelligent candidate.

16. (SBU) Dhlakama has been President of RENAMO since 1980 and led its forces during the civil war against the FRELIMO government. Since the signing of the Rome Peace Accords in 1992, Dhlakama has played a crucial role in transforming RENAMO into a viable political party and keeping the disparate factions of his party from lapsing back into violence. Regarding priorities for the country, he has stressed the need for greater progress on judicial reform and fighting corruption, as well the importance of developing national economic production, particularly in small-to-medium sized businesses (Ref C). If RENAMO wins the elections, one of the party's major challenges will be to find technically competent people to fill key government positions. During Dhlakama's September visit to the United States, he attended the Republican National Convention and he met with you, the State Department, and the National Security Council (NSC). Dhlakama describes himself as a friend of the U.S. and will seek to strengthen the Mozambique-U.S. relationship if elected.

THE STATE OF ECONOMIC AFFAIRS

17. (U) Mozambique's recovery from the devastation of civil war, its macroeconomic reforms, and its success in attracting large investment projects have resulted in an average GDP growth rate of eight percent from 1992-2003, the highest in Africa over this time period. Foreign direct investment, exports, and revenue collections have seen notable increases, and privatization continues but has slowed in recent years. GDP growth for 2003 was approximately seven percent, and the government expects the economy to continue to expand at a rate between 7-10 percent.

18. (U) Maintaining this high rate of growth hinges on several major foreign investment projects, continued economic reform, and the revival of the agriculture, transportation, and tourism sectors. This growth is from a low base; per capita GNP for 2002 was around \$200. Inflation for 2003 was 13 percent, in line with the levels of recent years.

19. (SBU) The Mozambican business climate remains a work in progress. Excellent macroeconomic policies and high-level commitment to attracting business mask a bureaucracy that remains at times unresponsive to the needs of corporations, especially small-to-medium-sized enterprises. Permits are slow; corruption is problematic; and the legal system is antiquated. Although under revision, the labor law is extremely pro-worker and remains an impediment to foreign investment. Land tenure at present relies on a lease system without private ownership. Donors are working extensively with the GRM to modernize and improve the current commercial code, labor law, business registration process, tax system, and land ownership policy. Although reform is moving in the right direction, it is expected to take several years before significant impediments to investment are removed. Infrastructure is poor and was further damaged by severe floods in 2000. Important strides have been made to improve the situation, most notably in road infrastructure.

COMMERCIAL OPPORTUNITIES AND MEGA-PROJECTS

10. (U) Mozambique offers substantial investment and commercial opportunities in energy generation (hydropower, coal, and gas), transportation (road construction, rail and port services, airport construction, and air transport), resource extraction (natural gas, minerals, timber, and fishing), aquaculture, agriculture/horticulture (cereals, cashews, cotton, sugar, vegetables, flowers, and citrus; light industry), and tourism.

11. (U) Mozambique's rapid economic growth is enhanced by the operation of several mega-projects. These include the MOZAL aluminum smelter (Australia), the newly inaugurated SASOL gas pipeline (South Africa), and soon-to-be operational mining and heavy sands projects in Gaza and Nampula Provinces (Australia and Ireland). The GRM works closely with large investors by creating government-investor task forces to address issues and concerns large investors confront when working in the Mozambican business environment. The GRM is very responsive to these investors and has created several "special economic zones" and "export processing zones" which provide incentives to investors involved in mass-production and export and those investing in traditionally poor and under-developed areas. Mozambique's mega-projects are said to account for 2-3 percentage points of the country's seven percent GDP growth and a much larger share of export growth.

KEY BILATERAL ISSUES - IN BRIEF

12. (SBU) A) Elections: The USG is supporting the electoral process through financial assistance to the Carter Center and domestic observer groups. As we did during the 2003 municipal elections, post will send observers to key municipalities throughout the country.

B) Trade & Investment: Mozambique has yet to take full advantage of AGOA, and US trade and investment in Mozambique remains small. Currently, only one apparel company in Mozambique is exporting under AGOA, with a second company, owned by the Aga Khan Foundation, expected to begin operations shortly.

C) HIV/AIDS: Mozambique is at a critical stage in its efforts to stem the HIV/AIDS epidemic. In Southern Africa, Mozambique presents both the greatest challenges and possibly the greatest opportunity to become the next Uganda-like success in turning around the HIV/AIDS threat. Despite occasional criticism from the health minister, we have made considerable efforts to ensure that the President's Emergency Plan For AIDS Relief (PEPFAR) is seen as a collaborative approach to addressing the epidemic. Mozambique is the only country to be both a focus country under the PEPFAR and eligible to submit an MCC proposal in FY04.

MCA IN MOZAMBIQUE

13. (SBU) Mozambican government officials, civil society leaders, and private sector groups are broadly aware of the MCA and Mozambique's FY04 eligibility for the program. This will be the third MCC team visit to Mozambique since Mozambique was selected as part of the group of 16 eligible countries in May. The first visit took place June 8-11 and served largely to introduce the MCC and meet Mozambican officials leading the proposal process. The second visit took place in early September and allowed for the MCC's familiarization with Mozambique and the draft proposal. On October 4, Prime Minister Luisa Diogo met in Washington with MCC officials John Hewko, Thomas Briggs, and Stephen Gaull and discussed Mozambique's submission of a proposal. Although the CTA business group and the Mozambique-US Chamber of Commerce have circulated the proposal widely, the government has not yet released it and it has not been covered in the press. We do not know whether the government's reluctance to release the proposal so far is related to electoral concerns.

DUDLEY